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In the Supreme Court of the United States

OCTOBER TERM, 1964

No. 602

WALKER PROCESS EQUIPMENT, INC., PETITIONER

v.

FOOD MACHINERY AND CHEMICAL CORPORATION

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

OPINIONS BELOW

The oral opinion of the district court (R. 64–68) is not reported. The opinion of the court of appeals (R. 80–82) is reported at 335 F. 2d 315.

JURISDICTION

The judgment of the court of appeals was entered on July 15, 1964 (R. 83), and a petition for rehearing was denied on August 14, 1964 (R. 84). The petition for a writ of certiorari was filed on October 19, 1964, and was granted on January 18, 1965 (R. 84). The jurisdiction of this Court rests on 28 U.S.C. 1254(1).

QUESTION PRESENTED

The United States will discuss the question whether a person injured in his business by a competitor's enforcement of a patent he obtained by fraud on the Patent Office may maintain an action for treble damages under the antitrust laws, on the theory that such conduct constitutes monopolization under Section 2 of the Sherman Act.[1]

STATUTES INVOLVED

Section 2 of the Sherman Act, 26 Stat. 209, as amended 69 Stat. 282, 15 U.S.C. 2, provides in pertinent part:

> Every person who shall monopolize, or attempt to monopolize, * * * any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor * * *.

The Declaratory Judgment Act, 28 U.S.C. 2201 provides:

> In a case of actual controversy within its jurisdiction, except with respect to Federal taxes, any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.

[1] This question comprehends the first two questions which petitioner presents. We express no views on the third question presented: whether the prevailing party in an infringement action brought on a fraudulently procured patent can recover attorney's fees under 35 U.S.C. 285 (Pet. 2, 12–14).

28 U.S.C. 1338 provides in pertinent part:

> (a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases.

35 U.S.C. 282 provides in pertinent part:

> A patent shall be presumed valid. The burden of establishing invalidity of a patent shall rest on a party asserting it.
>
> The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded:
>
> * * * * *
>
> (2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability,
>
> (3) Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title,

INTEREST OF THE UNITED STATES

This case presents the question whether a charge of illegal monopolization under the Sherman Act may be based upon the enforcement of a patent procured by fraud on the Patent Office. Many years ago the rule was enunciated that only the United States may maintain an action to cancel a patent for fraud. A patent, of course, gives a legal monopoly, and if a patent is obtained through fraud on the Patent Office,

there is a strong public interest in invalidating it, so that the public may be protected against an illegal monopoly. For this reason, alleged infringers have broad rights to challenge the validity of the patents involved. The United States believes that permitting a charge of illegal monopolization to be grounded upon the enforcement of a patent procured by fraud would serve the salutary purposes of protecting the public against illegally obtained patents and deterring frauds before the Patent Office, would not be inconsistent with the rule that only the United States may annul a patent, and would accord with settled principles under Section 2 of the Sherman Act.

STATEMENT

The facts are simple and undisputed. Respondent, Food Machinery and Chemical Corporation ("FMC"), filed an action against petitioner, Walker Process Equipment, Inc. ("Walker"), charging patent infringment (R. 3–4).[2] Walker denied the infringement and counterclaimed for a declaratory judgment that the patent was invalid (R. 10–12). After discovery proceedings, FMC moved to dismiss the infringement action with prejudice because, among other reasons, the patent had expired (R. 55).

Thereafter, Walker twice amended its counterclaim. The final pleading charged that FMC had "illegally monopolized interstate and foreign commerce by fraudulently and in bad faith obtaining and main-

[2] The patent in question (No. 2,328,655) issued in September 1943; it covered an aeration type sewage treatment system featuring moveable air diffusers (see R. 5–9).

taining against the p. lic and [Walker] its patent in suit No. 2,328,655, well knowing that it had no basis for * * * a patent * * *" (R. 60). The alleged fraud was that FMC had sworn before the Patent Office that it neither knew nor believed that the claimed invention had been in public use in the United States for more than one year prior to the filing of its patent application when, in fact, it had been a party to such prior public use (R. 60–61). Walker further alleged that FMC's possession of the patent had "deprived [it] of profitable business [it] would otherwise have had * * *," citing five instances in which it "had received orders or was low bidder for aerator equipment but lost them because of the patent * * *" (R. 62). The relief requested, *inter alia*, was that FMC's conduct be adjudged "a violation of antitrust laws" and that Walker receive "an award of treble damages" (R. 63).

The district court dismissed the amended counterclaim (R. 64–69) and the Seventh Circuit affirmed (R. 80–83). The court of appeals summarized the pleading as charging that FMC had "violated the federal anti-trust laws by maintaining and enforcing a patent which was obtained through fraud upon the Patent Office * * *" (R. 80). Noting that "only the government may 'annul or set aside' a patent * * *" (R. 81) and that no case had "decided, or hinted that fraud on the Patent Office may be turned to use in an original affirmative action, instead of as an equitable defense", the court ruled (R. 82):

> Since Walker admits that its anti-trust theory depends on its ability to prove fraud

on the Patent Office, it follows that * * * Walker's second amended counterclaim failed to state a claim upon which relief could be granted.

SUMMARY OF ARGUMENT

The theory of Walker's counterclaim was that since FMC had obtained its patent by fraud on the Patent Office, the enforcement of that patent against competitors constituted illegal monopolization. We submit that Walker's counterclaim charged a violation of Section 2 of the Sherman Act, and that, contrary to the holding of the court of appeals, Walker was not barred from maintaining its action by the rule that only the United States may seek to annul a patent for fraud.

First, if Walker's counterclaim was otherwise sufficient to state a claim, it was not barred by the rule that only the United States may sue to cancel a patent. The reasons for limiting the right to bring cancellation actions to the United States are inapplicable to a case where patent invalidity is merely an operative fact in a cause of action under the antitrust laws. In any event, such reasons are outweighed by the public policy favoring the elimination of fraudulently obtained patents, which otherwise would clog our system of free competition. This policy is reflected in the Declaratory Judgment Act, under which any person threatened with an infringement suit may challenge the patents involved. There is no reason why one whose business has been injured under color of a fraudulently procured patent should not have the same right.

Second, the allegations that FMC had secured its patent through fraud upon the Patent Office, and had thereafter employed it to injure Walker's business, state a claim for illegal monopolization in violation of Section 2 of the Sherman Act. A patent grants a monopoly, and the acquisition of such a monopoly by fraud on the Patent Office demonstrates that in monopolizing the patentee acted deliberately—a showing which is sufficient to establish the offense of monopolization. The case is entirely different from one in which a patent secured in good faith subsequently is held invalid, for there the intent to secure a monopoly is consonant with the purpose of the patent laws, and is protected by those laws.

ARGUMENT

THE ENFORCEMENT BY A PATENTEE OF A PATENT WHICH HE OBTAINED BY FRAUD ON THE PATENT OFFICE CONSTITUTES ILLEGAL MONOPOLIZATION, IN VIOLATION OF SECTION 2 OF THE SHERMAN ACT, FOR REDRESS OF WHICH A PRIVATE ANTITRUST ACTION WILL LIE

A. THE FACT THAT ONLY THE UNITED STATES MAY SUE TO CANCEL A PATENT DOES NOT BAR A PRIVATE PARTY FROM BASING AN ANTITRUST ACTION ON AN ALLEGATION THAT HE HAS BEEN INJURED THROUGH ENFORCEMENT OF A PATENT SECURED BY FRAUD UPON THE PATENT OFFICE

The court below correctly stated that only the United States may bring an action to annul a patent on the ground of fraud before the Patent Office. *E.g., Mowry* v. *Whitney,* 14 Wall 343; *Briggs* v. *United Shoe Machinery Co.,* 239 U.S. 48. But that rule does not bar a private party from basing an antitrust action upon a fraudulently procured patent mo-

nopoly, since the reasons for the rule are not relevant in this context. The rationale of the rule is two-fold: (a) Since there is no statutory authority to bring a private annulment action, it "is not a suit arising under the patent laws" over which the district court has jurisdiction under the judicial code. *Briggs, supra* at 50. (b) No private annulment action can be maintained under the court's general equity powers because a decree in one case would have a binding effect only on the parties to the case, so that a patentee could "be subjected to innumerable vexatious suits to set aside his patent * * *." On the other hand, by centralizing control of such actions in the Attorney General, such "oppression and abuse" can be avoided. *Mowry, supra,* at 441.

Neither reason is pertinent here. Walker's action was not brought under the patent laws, but under Section 4 of the Clayton Act, 38 Stat 731, 15 U.S.C. 15, which gives "[a]ny person * * * injured in his business or property by reason of anything forbidden in the antitrust laws" the right to sue for treble damages. The relief sought was an adjudication that FMC's conduct "constitute[d] a fraud on the Patent Office, * * *, a violation of antitrust laws, and unjust enrichment of [FMC]" at Walker's expense, for which "an award of treble damages" was asked (R. 63). The foundation of the claim is not the mere existence of a fraudulently procured patent, but the use of such patent to inflict injury upon this particular plaintiff, as distinguished from the public at large.

The fact that the effect of the attack on the patent, if sustained, may be to make the patent unen-

forceable as a practical matter, does not turn the action into one under the patent laws to cancel the patent. *Becher* v. *Contoure Laboratories, Inc.*, 279 U.S. 388. There suit was brought in a State court to have Becher declared trustee *ex maleficio* of a patent for an invention which he had allegedly stolen from the inventor. The defendant attacked the State court's jurisdiction, pointing out that plaintiff was seeking the same practical result as if suit had been brought to invalidate Becher's patent, and that such an action could be brought only in the federal courts. This Court ruled (p. 391) that "even if the logical conclusion from the establishment of the [inventor's] claim is that Becher's patent is void, that is not the effect of the judgment. Establishing a fact and giving a specific effect to it by judgment are quite distinct. A judgment *in rem* binds all the world, but the facts on which it necessarily proceeds are not established against all the world, *Manson* v. *Williams*, 213 U.S. 453, 455, and conversely establishing the facts is not equivalent to a judgment *in rem*." Since in the present case Walker does not seek a judgment canceling the patent, it is similarly irrelevant that such a judgment *in rem* can be issued only in a suit brought by the United States.

As to the second point, there is no existing public policy which suggests that suits attacking the validity of patents must be confined to the hands of the Attorney General because of the alternative possibility of a multiplicity of "oppressive" actions. On the contrary, the many decisions which have recognized

the right of alleged infringers to raise, as a defense in the infringement suit, the claim that the patent was obtained by fraud or other inequitable conduct, reflect the public interest in extending the opportunities to eliminate the improper monopolies which such patents create. *Precision Instrument Mfg. Co.* v. *Automotive Maintenance Mach. Co.*, 324 U.S. 806; *Hazel-Atlas Co.* v. *Hartford-Empire Co.*, 322 U.S. 238; *Shawkee Mfg. Co.* v. *Hartford-Empire Co.*, 322 U.S. 271; *Keystone Driller Co.* v. *General Excavator Co.*, 290 U.S. 240. Moreover, under the Declaratory Judgment Act, 28 U.S.C. 2201, any person threatened by patent infringement charges may bring an action for a declaratory judgment and directly challenge the validity of the patent. *E.g., Kerotest Mfg. Co.* v. *C-O-Two Fire Equipment Co.*, 342 U.S. 180; *Welch* v. *Grindle*, 251 F. 2d 671 (C.A. 9); *Technical Tape Corp.* v. *Minnesota Mining and Mfg. Co.*, 200 F. 2d 876 (C.A. 2); *Chicago Metallic Mfg. Co.* v. *Edward Katzinger Co.*, 123 F. 2d 518 (C.A. 7).* Thus, a person accused of infringement need not await the institution of a suit against him to challenge the patent, but himself may take the initiative in seeking to invalidate the patent. In short, persons other than the Attorney General now have the right to initiate

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E. W. Bliss Co. v. *Cold Metal Process Co.*, 102 F. 2d 105 (C.A. 6), and *I.C.E. Corp.* v. *Armco Steel Corp.*, 201 F. Supp. 411 (S.D. N.Y.), relied on by the court below, as well as *Dimet Proprietary* v. *Industrial Metal Protectives*, 109 F. Supp. 472, 478 (D. Del.), are contrary to the cases cited in the text, and deny an alleged infringer the right to maintain an action for a declaratory judgment of invalidity. They apply the principle of *Mowry* without critical analysis.

and maintain actions which, if successful, will have the practical effect of invalidating a patent. See *Becher, supra.*

The ruling of the court below is the first, to our knowledge, denying a party the opportunity to establish a claim under a federal statute merely because he proposes to prove that the defendant committed a fraud on the Patent Office.[4] It would extend a relatively minor policy so as to obstruct the full utilization of rights expressly granted to private litigants by the antitrust laws, and would contravene policy considerations which argue that courts should be more, rather than less, interested in providing an opportunity to air charges of fraud in securing a patent. As this Court said in the *Precision Instrument* case, *supra*, at 816:

> A patent by its very nature is affected with a public interest. As recognized by the Constitution, it is a special privilege designed to serve the public purpose of promoting the "Progress of Science and useful Arts." At the same time, a patent is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope. * * *

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[4] The *Bliss*, *I.C.E.*, and *Dimet* cases, cited in the preceding footnote, did not involve claims for damages under the antitrust or other substantive laws, but, so far as the opinions reveal, sought only declarations of invalidity.

B. THE MAINTENANCE OF A PATENT MONOPOLY SECURED BY FRAUD UPON THE PATENT OFFICE IS AN UNLAWFUL MONOPOLIZATION UNDER SECTION 2 OF THE SHERMAN ACT

Walker's counterclaim alleged that FMC obtained a patent by knowingly misrepresenting facts to the Patent Office (R. 60–61), and that FMC thereafter used that patent to injure Walker in its business by depriving it of orders through "threats of suit" and by bringing the infringement action to exclude Walker from the market (R. 62). We submit that these allegations, if proved, would establish a *prima facia* case of monopolization in violation of Section 2 of the Sherman Act. Therefore, Walker should have been permitted to go to trial. Cf. *United States* v. *Singer Mfg. Co.*, 374 U.S. 174, 199–200 (Mr. Justice White, concurring).

The offense of monopolization under Section 2 of the Sherman Act is established by proof (1) that the defendant possessed the power to exclude competitors from the relevant market and (2) that the power was deliberately obtained or maintained. *E.g., United States* v. *Griffith*, 334 U.S. 100; *American Tobacco Co.* v. *United States*, 328 U.S. 781. As to the first element of the offense, there can be no question but that a patent gives its owner power to exclude all competitors from the product market covered by the grant. "During its term, a valid patent excludes all except its owner from the use of the protected process of product." *United States* v. *Line Material Co.*, 333 U.S. 287, 308. And "[a] patent, moreover, although in fact there may be many competing substitutes for the patented article, is at least *prima facie* evidence of

[market] control." *Standard Oil Co.* v. *United States*, 337 U.S. 293, 307. The whole point of the patent is the power of exclusion which it gives to the patentee, and the scope of the power is measured by the claims which the patentee drafts to point out his new and useful contribution to industry. Thus "[p]atents * * * furnish the most familiar type of classic monopoly." *United States* v. *du Pont & Co.*, 351 U.S. 377, 392. Accordingly, there is at the very least a presumption that the patent monopolizes a "part" of trade or commerce within the meaning of Section 2.

Moreover, in the present case the record indicates that the patent apparently gave FMC broad market control. An FMC employee stated on deposition (R. 50) that it was "probably correct" that "throughout the life of the patent" FMC had "virtually no competition in the sale of swing diffusers." Furthermore, the second amended complaint alleged that Walker had actually lost sales upon five specific occasions "because of the patent" (R. 62). Such acts of exclusion, while not necessary to prove monopoly power (*American Tobacco Co.* v. *United States*, *supra*, p. 810), emphasize that the patentee's power here was real, and not merely a legal presumption.

As to the second element of the offense—that the monopolist deliberately acquired or maintained monopoly power—the fact that the power resulted from a patent presents a special case. Ordinarily, no "specific intent" is required to establish deliberateness, for "no monopolist monopolizes unconscious of what he is doing," *United States* v. *Aluminum Co. of America*, 148 F. 2d 416, 432 (C.A. 2). But the patent laws are

designed to offer inventors a legal monopoly, and it would conflict with that purpose to penalize a patentee who had merely pursued his statutory rights in good faith, solely because his patent turned out to be invalid. Cf. *United States* v. *General Electric Co.*, 80 F. Supp. 989, 1015 (S.D.N.Y.). Accordingly, deliberateness cannot be established merely by showing the mere obtaining and enforcing of a patent which subsequently is declared invalid.

We submit that proof of fraud in the procurement of a patent establishes deliberateness, and even "specific intent," which satisfies the second element of the offense. The fact that an applicant has deliberately misled a governmental office into granting an undeserved patent under color of which others may be excluded from the market is conclusive evidence of an intention to achieve unlawful monopoly power. While no case has directly passed upon this question, in an analogous situation the Second Circuit refused to dismiss a complaint charging an attempt to monopolize based upon allegations that the defendant "without probable cause and in bad faith" had claimed an exclusive right to a trade name. *Kellogg Co.* v. *National Biscuit Co.*, 71 F. 2d 662, 665–666.[1] The court reasoned, *id.* at 666 (emphasis added):

> While it doubtless would not be within the Anti-Trust Acts to bring a suit to assert a

[1] A violation of the Sherman Act may be predicated upon maintaining, or even threatening, patent infringement litigation in bad faith. *Patterson* v. *United States*, 222 Fed. 599, 613, 634 (C.A. 6); *Lynch* v. *Magnavox*, 94 F. 2d 883, 886, 889 (C.A. 9); *Stewart-Warner Corp.* v. *Staley*, 42 F. Supp. 140, 146 (W.D. Pa.); *United States* v. *Besser Manufacturing Co.*, 96 F. Supp. 304 (E.D. Mich.), affirmed, 343 U.S. 444.

> patent or trade-mark right whatever the motive, if the claim was valid, an attempt to assert a known invalid claim would be a different matter. * * *

That rationale is equally pertinent here.

We advocate no departure from the rule that a good faith attempt to enforce a patent which is later declared invalid will not support treble damage actions by the asserted infringers. See *Cole* v. *Hughes Tool Co.*, 215 F. 2d 924, 935–936 (C.A. 10), certiorari denied *sub. nom. Ford* v. *Hughes Tool Co.*, 348 U.S. 927. But that is not this case. What is involved here is the claim that Walker was injured by the enforcement against it of a patent which FMC obtained from the Patent Office through deliberate, material misrepresentations where, had the truth been known, the application would have been denied. In these circumstances, the counterclaim stated a claim for relief, and should not have been dismissed.

CONCLUSION

The judgment of the court of appeals affirming the dismissal of the second amended counterclaim should be reversed, and the case remanded to the district court for trial.

Respectfully submitted.

ARCHIBALD COX,
Solicitor General.

WILLIAM H. ORRICK, JR.,
Assistant Attorney General.

ROBERT B. HUMMEL,
Attorney.

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